



Grabbing opportunity by the mane

Africa's future potential for economic development

Key messages

- Africa's growth performance has been strong and there is equally strong potential for the future as an outcome of both the global race for commodities, as well as internal changes in African countries' economies and societies
- As emerging economies, especially China, move to more sophisticated and capital intensive industries, new opportunities will emerge for lower-income African countries with an abundant labour supply
- African governments ought to focus on policies that foster the development of new industries and improve the quality of labour supply to better match the skills required by firms
- No single policy recommendation can fit the entire continent, but a few clusters of countries can be identified, that share similar challenges and opportunities and hence may learn from each other on priorities and policy tools

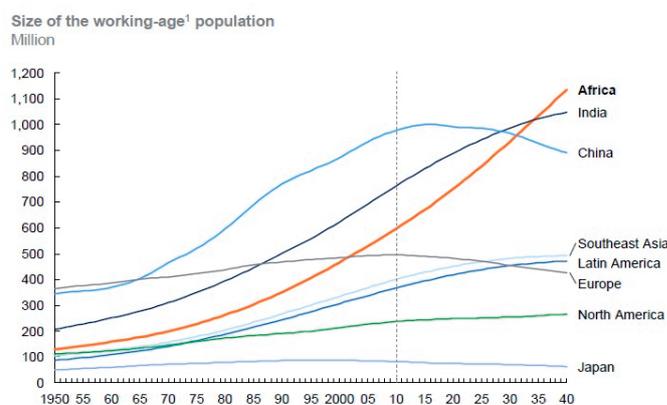
Africa is one of the fastest growing economic regions in the world

A number of recent studies suggest that Africa's long-term growth prospects are strong and will be further propelled by the global race for commodities and internal changes in African countries' economies and societies. Africa's business opportunities, particularly for companies in the services industries (e.g., retail, telecommunications and banking) and in infrastructure- and resource-related industries, as well as across the agricultural value chain look especially promising (McKinsey Global Institute, 2010). Africa's long-term economic growth will furthermore increasingly reflect interrelated social and demographic changes which subsequently will generate new domestic engines of growth, the most important among these being urbanization (which boosts productivity, demand and investment), an expanding labour force and the rise of the middle-class African consumer (McKinsey Global Institute, 2010).

With new growth poles comes new opportunity

As new 'growth poles' in the world, China, India and Brazil are climbing the industrial ladder and offer an unprecedented opportunity to countries with income levels currently below theirs (Lin, 2011). Following a period of sustained growth, China's economy has now reached an important crossroads characterized by rapidly rising wages and a reduction of surplus labour. If China is to continue on a dynamic growth path, it will need to enter new industries and relocate its labour-intensive industries to low-income countries. Approximately 85 million workers in China work in the labour-intensive sectors of manufacturing compared with around 8 to 10 million in Africa. The reallocation of these Chinese workers to

Exhibit 11
Africa's workforce will become the world's largest by 2040



¹ Population aged 15–64.
SOURCE: United Nations World Population Prospect; McKinsey Global Institute

more sophisticated, higher value added products will open up new doors for lower-income countries with an abundant labour supply to fill the gap (Lin, 2011). Transferring 5 million of those 85 million jobs would boost employment opportunities on the African continent by 50 percent.¹

Africa's manufacturing performance

McKinsey Global Institute projects that there will be 1.1 billion Africans of working age by 2040. Hence, if Africa can

¹ Robert Zoellick in Bloomberg News, 5 September 2011, World Bank, China May Cooperate to Transfer Manufacturing Jobs to Africa, <http://www.bloomberg.com/news/print/2011-09-05/world-bank-china-may-cooperate-to-transfer-manufacturing-jobs-to-africa.html>

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provide its young people with the necessary education and skills, this large workforce could potentially fill the gap left behind by Chinese workers in the low-value sectors of manufacturing. This labour force could also become a significant engine of global consumption.

However, Africa currently only accounts for approximately one percent of global manufacturing and is losing ground in labour-intensive manufacturing, the first step on the path towards industrial development. Economic diversification has also remained limited and the majority of African countries continue to export mostly commodities or low-technology products.

Developing new industries

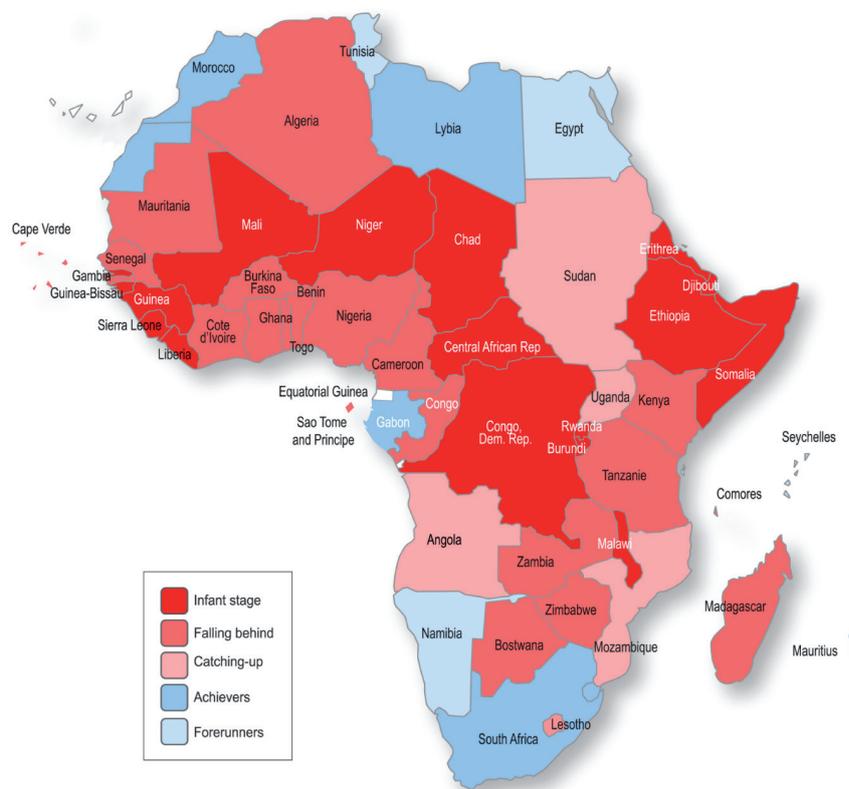
If African countries are to take advantage of the emerging opportunities China's move up the industrial ladder offer, their governments need to implement policies that facilitate and foster the development of new industries which are consistent with their comparative advantage (Lin and Monga, 2011), and improve the quality of labour supply to better match the skills required by firms. Moreover, labour demand needs to be increased by further improving conditions for economic growth in general, and for private sector activity in particular (African Development Bank Group et al., 2011).

Determining Africa's industrial performance

To determine their industrial performance, African countries can be divided into five groups based on two indicators, namely their level of industrialization in 2010 (captured by each country's manufacturing value added per capita) and their industrial growth performance from 1990–2010 (captured by the compound annual growth rate of MVA per capita).

Forerunners: Countries which are on a path towards long-term sustained growth and have already developed sizeable manufacturing activities. Their industrialization level is at least twice the African average.

African Countries Performance



Source: UNIDO/UNCTAD, 2011

Achievers: Countries with a comparatively high level of industrialization in per capita terms, but whose per capita output has mostly stagnated in recent years. They have not accomplished a large-scale transition from early to late sectors.

Catching-up: Countries which stand at a considerably earlier stage of industrial development and are not exploiting their full potential in certain sectors. They are more vulnerable to a sudden deterioration of their industrial growth.

Falling behind: Countries whose level of industrialization and growth is relatively low. They are characterized by a strong reliance on unprocessed natural resource exports and a low contribution of manufacturing activities to GDP. This group is also prone to deteriorating growth performance and de-industrialization.

Infant stage: Countries with a relatively insignificant or no manufacturing base. It is unlikely that they will make any noteworthy progress without deliberate government intervention.

African States' relative position in industry

According to this classification, four African countries are forerunners and six belong to the less dynamic achiever group. Five countries in Africa are catching up, but 18 are falling behind and 18 are in the infant stage. Based on this typology, industrial policymakers can better understand their countries' relative position in the relevant industries and, accordingly, outline an industrial strategy founded on the necessary mix of industrial diversification, deepening and

upgrading measures.²

Identifying the right diversification strategies

Long-term growth hinges on continuous structural transformation induced by industrial and technological upgrading and diversification (Lin, 2011). African governments should therefore promote the development of industries that reflect their country's latent comparative advantage based on its endowment structure. An industry's relative potential depends on its feasibility, i.e., on the industry's requirements in terms of technological capabilities and endowment structures. The decision about which industries to support should thus be based on a thorough understanding of each manufacturing sector's relative attractiveness for the country at its current and future stages of development. The attractiveness of an industry can be evaluated in three dimensions, **the growth dimension** (the economic growth potentials specific sectors offer at a given development stage with certain endowment structures and technological capabilities), **the pro-poor dimension** (ensuring equal opportunities for Africa's poor to participate in manufacturing, the employment effect of individual sectors and growth inclusiveness aspects), and **the environmental dimension** (energy and material efficiency and resource depletion).

Policy Recommendations

Tailoring development policies in Africa

Today's rapidly evolving global economy and the emergence of new growth poles is unlocking major opportunities for industrialization in

² *Industrial diversification* implies the establishment of new industrial capacity by nurturing manufacturing activities which have thus far been non-existent; *industrial deepening* aims at the creation of more backward- and forward-linkages and complementarities between sectors and industries within a country, and *industrial upgrading* refers to the promotion of a more advanced and competitive industrial structure through product, process and functional upgrading (Lauridsen, 2010, cited in UN, 2011).

low-income countries. Africa's landscape has changed dramatically since the mid-1990s, with stagnation giving way to dynamism. However, each African country has unique features (natural resource endowments,

demographic trends, level of industrialization, extent of diversification, etc.) and the policies the respective governments implement must be tailored to these unique features.

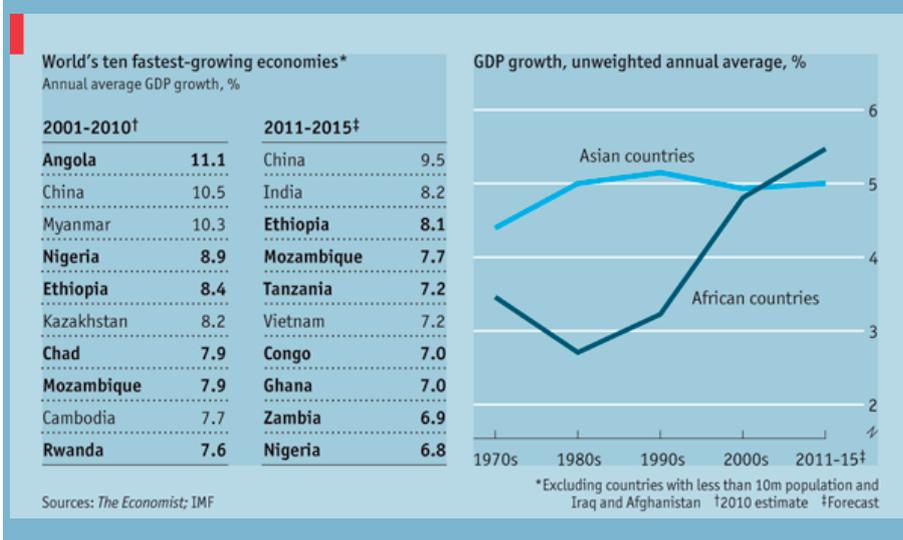
Rwanda: Getting growth back on track

GDP in Rwanda, a country that belongs to the infant stage group, grew 7.4 percent in 2010, up from 4.1 percent in 2009. The outlook for 2011 and 2012 remains robust, driven primarily by increased exports and growth of the services and construction sectors. Rwanda has implemented comprehensive reforms to create a business-friendly environment for the private sector, gaining the status of 'best reformer' in the world (Doing Business 2010). The Economic Development and Poverty Reduction Strategy launched in 2008 comprises 384 policy actions formed around three clusters: economic (macroeconomic management, sectoral development with an emphasis on agriculture, infrastructure, private sector development, climate change and natural resources), social (improvements in education, health and social protection) and governance (performance indicators on public financial management, justice

and law and order).

As of mid-2010, 374 (97 percent) of these policy actions had been implemented. The mid-term outlook for Rwanda's economy depends to a great extent on strategic public investment programmes and global demand for its key exports, as well as the loosening of domestic credit to the private sector. The downside risks for the mid-term outlook are reliance on a limited number of export commodities for which there is sluggish growth in global demand and low domestic resource mobilization, which increases reliance on external resources. Rwanda has the potential to achieve a much higher rate of economic growth if investments are made to create a skilled labour force, if infrastructure bottlenecks are removed and agricultural productivity improved.

African Economic Outlook, 2011



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Exploiting the late-comer advantage

If the five identified groups of African countries are to benefit from the arising opportunities, they will have to exploit the 'late-comer advantage' by building up industries that are growing dynamically in more advanced countries which have endowment structures similar to theirs. However, this process of modifying the industrial structure consistent with factor endowment cannot rely on market mechanisms alone—instead, the government must provide for and/or coordinate investments in the necessary infrastructure.

One size does not fit all

African *forerunners* such as Egypt, Namibia and Seychelles should focus on industrial deepening measures to create linkages and complementarities among individual firms within key industries, i.e., improve coordination between large and small firms as well as domestic and foreign or state-owned and private firms. A shift towards sectors that offer significant growth prospects (late sectors such as machinery or equipment) will be crucial. This shift will be contingent on far-reaching improvements in the countries' technological capabilities.

Achievers, including South Africa, Gabon and Morocco, should introduce diversification measures to accelerate the shift from early sectors (such as apparel and resource-based manufacturing) to late sectors (such as precision instruments) and focus on

their manufacturing activities to include additional sectors and higher value-added processes. Labour-intensive activities could be identified as medium-term and select technology-intensive sectors as long-term targets. The diversification of their manufacturing activities to encompass additional sectors and higher value-added processes will play a crucial role in accomplishing this goal.

African countries that are *falling behind* (e.g., Kenya, Cameroon and Nigeria) or that are in the *infant stage* (such as Rwanda, Mali and Sierra Leone) have a low contribution of manufacturing activities to GDP and should therefore identify unused potentials in manufacturing activities that are feasible and attractive in the short term. Strong government initiative will be required to support the emergence of entrepreneurial activities and the generation of basic technological and managerial capabilities.

Challenges and Prospects

Grabbing opportunity by the mane

China's domestic companies are moving up the value chain and if Africa is to grab the opportunity by the mane that this development offers, the continent's countries will need to surmount a number of challenges and bottlenecks. Africa's generally low industrial activity and weak manufacturing industry are attributable to the continent's poor infrastructure,

will need to steer investment and business activities into areas of industry critical for long-term growth and employment generation.

Foreign Direct Investment in Africa

Although Foreign Direct Investment (FDI) in Africa has increased over the last decade, it is concentrated in a few countries and sectors, with 15 oil exporting countries receiving 75 percent of FDI flows. Hence, attracting investment into diversified and higher value-added sectors continues to pose a challenge. The creation of manufacturing jobs, especially through FDI, generally results in job creation in other sectors through backward and forward linkages as well as through multiplier effects.

Boosting intra-regional trade

Trade between African countries remains quite low, representing only 12 percent of the continent's total exports and imports. Expanding intra-regional trade could significantly boost future growth. However, the current political instability in North Africa poses an additional threat given the region's weight of around one third of the continent's GDP.

The role of Africa's agricultural sector

Africa has considerable potential to increase the volume and value of its agricultural output from \$280 billion today to \$880 billion by 2030 (McKinsey Global Institute, 2010), indicating that

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